At 70, William Proxmire Looks To Regain Banking Panel Chair

If GOP Loses the Senate, Deregulation Will Lose Momentum

By BARTLETT NAYLOR

Bankers who want Congress to open new markets, be alert: You may have only one year to accomplish your task. The clock is ticking, say many political observers, because the Democrats stand a good chance of regaining control of the Senate in the 1986 election.

That means that the ranking Democrat on the Senate Banking Committee, Sen. William Proxmire of Wisconsin, likely will retake the committee's reins.

And Mr. Proxmire has some pretty conservative ideas about shaping the financial industry, ideas he outlined during a recent interview in his quiet fifth-floor office on Capitol Hill:

- He opposes nationwide banking, regional banking, and virtually all new products proposed for the industry.

Interstate banking "is a mistake," he says. "In Wisconsin, we're going to lose all the headquarters. Local people are going to find it troublesome to go to Minneapolis to get things approved. They're going to get turned down for loans. With a local bank, you never had that problem."

An Interview With...

- He says he would stiffen regulation, assess insurance premiums on foreign deposits, and raise capital standards.
- On requiring big banks to pay insurance premiums on foreign deposits, Mr. Proxmire asks rhetorically, "Why shouldn't they pay?"
- He says that risk-based insurance premiums, or the idea of charging some financial institutions more for deposit insurance, is "an intriguing idea." But he acknowledges that there are "practical problems": Publicizing risk ratings, for instance, could stigmatize the ability of a bank to attract deposits. "But then," he counters, "that's the point."

Respected Statesman

If Mr. Proxmire's ideas are considered outdated by some, he nevertheless is expected to be a powerful chairman. He himself does not face the voters until 1988, and Mr. Proxmire is a widely respected statesman with 30 years in the Senate who can marshal support for his ideas.

Sen. Jake Garn, R-Utah, has ushered two banking bills through the Congress in his four-year tenure as banking committee chairman. Mr. Proxmire, however, can count more than 10 bills during his six-year tenure as chairman — from the Depository Institutions Deregulation Monetary Control Act of 1980, which set the stage for financial deregulation, to the Financial Institutions Regulatory and Interest Rate Control Act of 1978, known as the "Bert Lance Bill," which toughened laws against insider abuse.

Under Sen. Garn, the banking committee has called no hearings on such industry scandals as E.F. Hutton & Co., the brokerage firmthat pleaded guilty earlier this year to bilking millions from dozens of banks in a check overdraft scheme.

Observers agree that "Prox" would have called hearings into problems of that magnitude.

Mr. Proxmire is cautious about criticizing his colleague and chairman. "I like Sen. Garn. We get along very well. I don't want to get into the subject of his chairmanship."

But the activist legislator says he feels that these are important times. Although he has seen his share of crises, the Senate veteran says banking problems "are worse now."

'Only a Prologue'

"The farm problem [we've seen] so far is only a prologue," Mr. Proxmire says. He also cites the international debt problem. "Some time," he says, "I think we're going to be in really serious trouble."

As the ranking minority member on the Banking Committee, he has no power to call hearings, and he leaves most of the bill-writing to Mr. Garn. At hearings, however, he often serves as the most probing interrogator.

Other members ramble through disorganized speeches or ask questions whose answers are found in high school textbooks. Others simply do not attend the hearings.

Mr. Proxmire attends nearly all hearings, and he asks prepared questions that he has researched with his staff. At confirmation hearings, Mr. Proxmire is famous for bringing up problems concerning nominees that other committee members have ignored.

He has not missed a floor vote since 1966 — the longest record in Senate history.

And although he turned 70 yesterday, Mr. Proxmire remains vigorous by jogging five miles each day to work. He is not too old to be just a little jealous of the superior jogging speed of Mr. Garn: "I couldn't keep up with him, but he's only about 45." (Mr. Garn is 53.)

Mr. Proxmire inspires respect among a wide circle of public officials, including ideological adversaries, and even bankers. John W. Johnson, former president of the Wisconsin Bankers Association and president of the Bank of Spring Green, differs on major banking issues with his senator.

Yet, Mr. Johnson says, Mr. Proxmire "understands the problems of banks," and if he becomes chairman of the Senate Banking Committee, "I see that as a positive." Mr. Johnson adds that he also supports Mr. Garn.

As an antagonist of bank expansion, Mr. Proxmire is hailed by the Independent Bankers Association of America, which is composed largely of community banks. Says Kenneth Guenther, executive director of the Independent Bankers: "Bill Proxmire is the best man in the Senate for promoting, protecting, and nurturing a diversified banking system."

Consumer advocates generally laud Mr. Proxmire. Says Alan Fox, banking expert for the Consumer Federation of America: "He is accessible and understands the need to deal with problems of the unsophisticated consumers."

Though he has seen his share of crises, Sen. William Proxmire says banking problems "are worse now." The farm problem "so far is only a prologue." And the international debt problem? "Sometime, I think we're going to be in really serious trouble."

Even lobbyists fighting for additional bank powers express respect for Mr. Proxmire.

"Prox draws his intellectual roots from Midwest populism and many of the trends in Wisconsin, where there is a deep distrust of banking powers," says Karen Shaw, a lobbyist who represents several large California institutions. "That populism is a strong force, and it's tough to argue with."

Ken McLean, Mr. Proxmire's chief banking aide of 16 years, says "Prox" should not be read as anti-banking. Mr. McLean cites his boss' support for limited new powers such as underwriting mortgage-backed and municipal securities.

Superior Education

Born in a Chicago suburb, Mr. Proxmire was afforded by his physician father the best in education: Yale University and the Harvard Business School.

When he decided to enter politics, Mr. Proxmire chose Wisconsin because it lacked a strong central political party, meaning that he would not have to serve an indenture of 15 years before running for office. That kind of independent bent has characterized his career. While establishing himself in the state, he got a job as a journalist, but was fired after attempting to organize a union.

He won election to the state legislature, but then lost three bids for governor. But in a special election in 1957 to fill the seat of then-Sen. Joseph McCarthy, who died of alcoholism after being censored by the Senate, Mr. Proxmire won, defeating the governor.

Since then, Mr. Proxmire has been reelected with ample margins. Wisconsin Republicans consider him an impregnable institution.

Politically, Mr. Proxmire is a maverick. While often labeled a liberal, he opposed the federal bailouts of New York City, Lockheed Corp., and Chrysler Corp. However, last year he did support the rescue of Continental Illinois National Bank and Trust Co.

He is among the stingiest of senators on fiscal policy, winning top honors from the National Taxpayers' Union.

And on social issues, you might confuse Mr. Proxmire for a southern Republican; he opposes busing and abortion.

In an age of campaign financing scandals, the Wisconsin Democrat appears squeaky clean. He accepts no political contributions nor any speaking engagement fees. He will not accept transportation and accommodation for speeches out of town.

Mr. Proxmire says he makes no investments in any institution where there may be a conflict, and he publishes his tax return every year in the *Congressional Record*. His latest shows a net worth of $563,315, most of that in his Washington, D.C., home.

A saint may raise an eyebrow at the $70,000 in municipal and state bonds; the $37,684 in a Shearson Lehman Brothers money market account; and the $5,334 in a Chevy Chase Savings and Loan account. Chevy Chase is one of the Maryland thrifts that was privately insured and that the federal government came close to bailing out during a statewide run last spring. ■

Nader Group Hits PACs; St Germain Parries

With consumer protection bills before the House Banking Committee, a leading consumer interest group and Committee Chairman Rep. Fernand J. St Germain, D-R.I., have traded some barbed comments.

The U.S. Public Interest Research Group, founded by Ralph Nader, recently let Mr. St Germain see its study of political contributions from banks to members of the House Banking Committee. Mr. St Germain alone received $194,050 during the last four years from the 265 bank political action committees, or PACs, surveyed by the PIRG. Committee members received $2.37 million, and an average of $27,000 each during the 1984 election cycle. This represents a 50% surge in PAC money to committee members over the 1982 election.

Since most members won easy reelection, the consumer organization concluded that the PAC donations were "multimillion-dollar investments well targeted to influence pending legislation." This might seem to be a definition rather than an indictment of PACs, but in publishing these figures, PIRG says it wants to see PACs banned.

In a statement, PIRG bank lobbyist Michael Caudell-Feagan said that "consumers have much to lose if banks' investments pay off. As the House Banking Committee addresses these issues, we hope members will ignore the investments of bank PACs and support strong consumer protection measures."

Mr. St Germain called the PIRG study a smear campaign. "Members of the committee listed in the PIRG release have some of the finest consumer records in the Congress, and it is despicable that a so-called public interest group is so free in smears by innuendo. The release is highly misleading and unfair."

Mr. St Germain exchanged brief words with Mr. Caudell-Feagan and asked in a letter for a reply void of "innuendo or smooth double-talk." In response, Mr. Caudell-Feagan wrote, "We believe there has been a misunderstanding of our intention."

He detailed his organization's case against PAC funds, concluding that the group is "critical of the apparent intent of the bank PACs, not the votes of the members."

— Bartlett Naylor

Top 20 House Banking Committee Members Getting Bank PAC Money

	Total 1981-85	Jan.-June 1985	Election Cycle 1984	Election Cycle 1982
St Germain, D-R.I.	$194,050	$30,450	$99,450	$64,150
Wortley, R-N.Y.	96,570	9,550	45,350	41,670
Barnard, D-Ga.	92,700	3,500	55,550	33,650
Neal, D-N.C.	95,700	13,450	58,800	23,450
Dreier, R-Calif.	89,553	6,750	44,553	38,250
Shumway, R-Calif.	87,121	3,700	44,196	39,225
Erdreich, D-Ala.	68,050	9,750	58,300	*
Parris, R-Va.	66,950	750	37,200	29,000
Lundine, D-N.Y.	66,700	8,850	45,800	12,050
Ridge, R-Pa.	64,025	6,750	57,275	*
McCollum, R-Fla.	58,510	1,250	17,710	39,550
Wylie, R-Ohio	55,150	1,000	30,850	23,300
McKinney, R-Conn.	55,037	1,000	31,500	22,537
Hubbard, D-Ky.	50,625	8,400	25,800	16,825
LaFalce, D-N.Y.	48,925	0	26,350	22,575
Roukema, R-N.J.	48,649	6,800	27,449	14,800
Garcia, D-N.Y.	41,530	5,300	17,605	16,625
Annunzio, D-Ill.	40,580	3,000	29,780	7,800
Lehman, D-Calif.	40,479	7,500	32,979	*

* Representative was not a Banking Committee member prior to this election cycle. Source: U.S. Public Interest Research Group

Failures of 1985 Are Concentrated Among Farm Banks

Continued from Page 30

those that thought the good times would never end," Mr. Cates says. "Management is the crucial thing that determines the survival of a bank."

A Climate for Failure

The point is stated more strongly in a recent report by Carlton Hill Jr., a senior associate at Swords Associates Inc., a Kansas City-based bank consultant with several clients in the Farm Belt.

"Nobody stopped to think that maybe this, like other inflation balloons, would someday burst, and reality would be upon us," he said. "They seem to have forgotten the lessons learned back in the '20s and '30s and even in the early '50s. The catch phrase was that land will always increase in value because God is not making any more land. He may not be making any more land, but we have learned that it is not always increasing in value."

And the FDIC's Mr. Silverberg, director of research and strategic planning, noted that there is more vulnerability in places where there has been fast growth and a high degree of optimism, creating a climate where lenders tend to be less careful about who they lend to and how the loans are secured.

"That's why there have been so few failures in places like New England and the industrial Midwest," he said. "Lenders have been more cautious in those states because they've been hurt before."

Of the first 100 failures this year, the most have occurred in Kansas with 11, Oklahoma with 11, Iowa with 11, Texas with 11, Nebraska with 9, Colorado with six, and California, Minnesota, Missouri, and Wyoming with five each.

Last year and the year before, Tennessee led the nation with 11 and 12 bank failures, respectively. So far this year, four Tennessee banks have failed.

Fraud Continuing Problem

Another nagging problem is bank fraud, which historically has been estimated to occur in some form in about one-half of the failures, although fraud itself rarely causes a bank to fail.

The year's most publicized alleged bank fraud involved the Golden Pacific National Bank, in New York City's Chinatown. The bank was closed June 21 by the Comptroller of the Currency, which cited accounting discrepancies as a reason for shutting down the bank.

The FDIC, acting as receiver, refused to release $14 million to holders of "yellow CDs," so named for the color of the paper they were printed on. The insurance agency, drawing an outcry from the holders as well as from Congress, maintained that it was uncertain whether the funds were insured deposits of the bank.

The agency recently threw the issue into the courts through a lawsuit against the CD holders. The agency also has sued two Golden Pacific officials, charging that they distributed the yellow CD funds to related businesses.

In addition, the FDIC is questioning whether some of the CD holders knowingly took part in the scheme.

As 1985 draws toward a close, the issue of brokered deposits appears to be waning in importance, at least in the eyes of the FDIC, which had been the principal opponent of this means of bank funding.

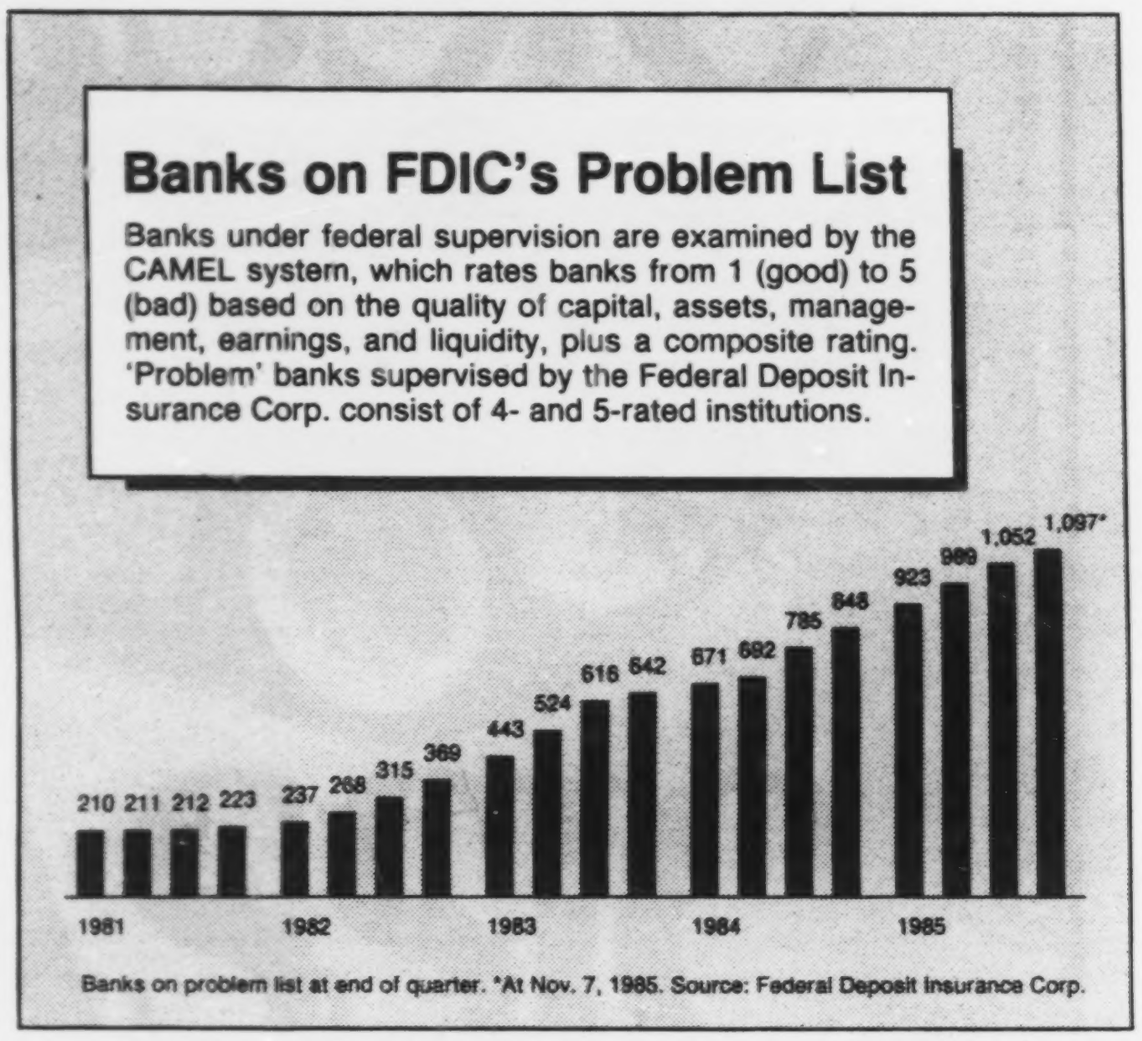
L. William Seidman, the new chairman of the agency, said in a recent speech before the U.S. League of Savings Institutions that he was "not opposed to brokered deposits per se."

His predecessor, William M. Isaac, maintained that use of brokered deposits caused banks to increase lending risks and often led to their failures.

Another sign of the FDIC's softened position on brokered deposits is that the agency's press releases on bank failures no longer include the names of deposit brokers or other intermediaries.

The switch in chairmen is one explanation of the change. In addition, attempts by the FDIC to restrict insurance coverage on brokered deposits have been struck down in the courts.

Legislation to curb brokered deposits has been proposed in Congress. However, last April a House subcommittee found that brokered deposits were a declining factor in bank failures. For example, the study found that in the first three months of 1985, 17% of failed banks held brokered deposits representing 5% or more of their total deposits, compared with 23% in the second half of 1984 and 56% in 1983.


Banks on FDIC's Problem List
Banks under federal supervision are examined by the CAMEL system, which rates banks from 1 (good) to 5 (bad) based on the quality of capital, assets, management, earnings, and liquidity, plus a composite rating. 'Problem' banks supervised by the Federal Deposit Insurance Corp. consist of 4- and 5-rated institutions.
210 211 212 223 237 268 315 369 443 524 616 642 671 692 785 848 923 989 1,052 1,097*
1981
1982
1983
1984
1985
Banks on problem list at end of quarter. *At Nov. 7, 1985. Source: Federal Deposit Insurance Corp.

Dennis P. O'Connell/American Banker Nov. 8, 1985

A First for the FDIC

Brokered deposits were cited in a number of bank failures this year. The FDIC made its toughest stand at Strong's Bank in Dodgeville, Wis., when in June it seized the funds of 11 institutions that placed deposits in the bank through High Yield Management Inc., a Clifton, N.J., money broker.

This was the first time the FDIC had ever withheld paying off on insured deposits, those that fall within the maximum $100,000 in coverage provided per depositor.

High Yield sued the FDIC to gain release of the funds, and in September the agency agreed to pay off the depositors.

The FDIC had suspected that the brokered deposits were used to fund fraudulent activities at Strong's Bank. The agency recently agreed to release the deposits after it could find no evidence that the depositors were aware of the fraud, which resulted in criminal charges being filed against several individuals, including the bank's former president, William Taynor.

One factor that has not changed since last year is that the FDIC and the Bureau of Indian Affairs are still at each other's throats.

On two occasions this year the FDIC has blasted the bureau for placing funds in banks that later failed. The bureau has responded that as a federal agency it has no choice but to obtain the highest rates available.

The FDIC itself has drawn sharp criticism from farm bankers who believe the agency and its examiners are insensitive to the problems of their banks and from banking specialists such as Mr. Cates who maintain that the FDIC is ineffective in spotting problem banks.

In recent years, the FDIC has moved to upgrade its operations in the face of the growing numbers of bank failures. The FDIC staff now totals 6,502, compared with 3,836 at yearend 1984. The sharpest growth, according to Mr. Katsanos, the FDIC spokesman, has occurred in the liquidation division, which has increased to about 3,000 from 300 a few years ago.

In its Kansas City office alone, for example, the staff is expected to increase to 60 by yearend from 15 in September.

The agency also is relying on more specialists from outside the agency to

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Counting . . .

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Cash advance of $3.2 million. Assumed by Cleo State Bank, Cleo Springs.

94. **Farmers State Bank,** Kanaranzi, Minn. Closed Oct. 18, 1985. Deposits of $3.7 million. Cash advance of $800,000. Assumed by Citizens State Bank of Silver Lake, Silver Lake.

95. **The Citizens Bank,** Ogden, Utah. Closed Oct. 18, 1985. Deposits of $81.1 million. Cash advance of $40.7 million. Assumed by Commercial Security Bank, Ogden.

96. **Early Savings Bank,** Early, Iowa. Closed Nov. 1, 1985. Deposits of $11.8 million. Cash advance of $3.8 million. Assumed by Citizens First National Bank, Storm Lake.

97. **Yellowstone State Bank**, Lander, Wyo. Closed Nov. 1, 1985. Deposits of $19.2 million. Payoff.

98. **Aurora Bank,** Aurora, Colo. Closed Nov. 1, 1985. Deposits of $14.7 million. Assumed by Omnibank Iliff, Aurora.

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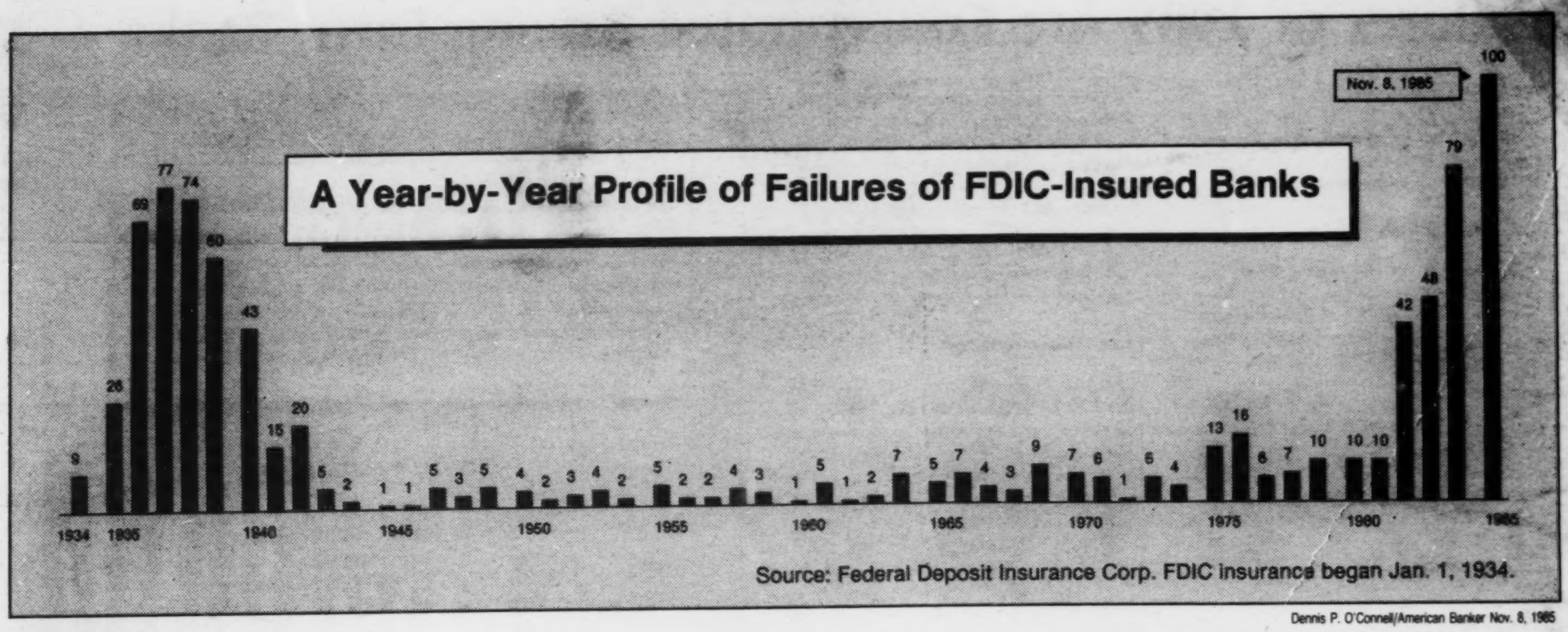

Dennis P. O'Connell/American Banker Nov. 8, 1985

Failures . . .

Continued from Page 39

assist in bank closings and is modernizing the supervisory functions, relying on computerized monitoring of banks.

In addition, the FDIC is now turning toward briefer visits by examiners rather than complete examinations, in some cases looking at a particular area, for example farm or energy loans.

As for the next few years, it is unlikely that the failure rate will ease, particularly if the agricultural sector remains in poor shape.

"I wish I knew what to do about the ag sector," said the FDIC's Mr. Silverberg. "But there doesn't look to be any quick or easy answers." ■

Bank Failures 1982-85

	1985	1984	1983	1982
Alabama	2	1	1	1
Alaska	...	...	...	...
Arizona	...	...	...	...
Arkansas	1	2	1	3
California	5	6	5	2
Colorado	6	2	1	...
Connecticut	...	...	...	...
Delaware	...	...	...	...
Dist. of Columbia	...	...	...	...
Florida	2	2	...	1
Georgia	...	...	...	...
Hawaii	...	...	...	...
Idaho	...	...	...	...
Illinois	2	5	6	5
Indiana	...	2	...	...
Iowa	11	3	...	2
Kansas	11	7	1	...
Kentucky	...	1	1	...
Louisiana	...	1	...	...
Maine	...	...	...	...
Maryland	...	...	...	...
Massachusetts	...	...	...	1
Michigan	...	1	...	1
Minnesota	5	4	1	1
Mississippi	...	1	...	...
Missouri	5	2	1	2
Montana	...	...	1	...
Nebraska	9	5	1	...
Nevada	...	...	1	...
New Hampshire	...	...	...	...
New Jersey	...	1	1	1
New Mexico	2	...	...	...
New York	3	...	2	4
North Carolina	...	...	...	...
North Dakota	...	...	...	...
Ohio	...	...	...	...
Oklahoma	11	5	1	3
Oregon	3	5	5	...
Pennsylvania	...	...	...	1
Puerto Rico	...	1	1	1
Rhode Island	...	...	...	...
South Carolina	...	...	...	...
South Dakota	...	1	1	...
Tennessee	4	11	12	3
Texas	11	6	3	7
Utah	1	1	...	...
Vermont	...	...	...	...
Virginia	...	...	...	1
Washington	...	...	...	1
West Virginia	...	...	...	1
Wisconsin	1	...	...	...
Wyoming	5	2	1	...
Total	100	79	48	42

Iowa, Kansas, Oklahoma, and Texas with 11 failures are tied for the greatest number of closed banks up to Nov. 8, 1985. In 1984 and 1983 Tennessee had the most bank failures of any state in the country, with 11 and 12 shut banks, respectively.

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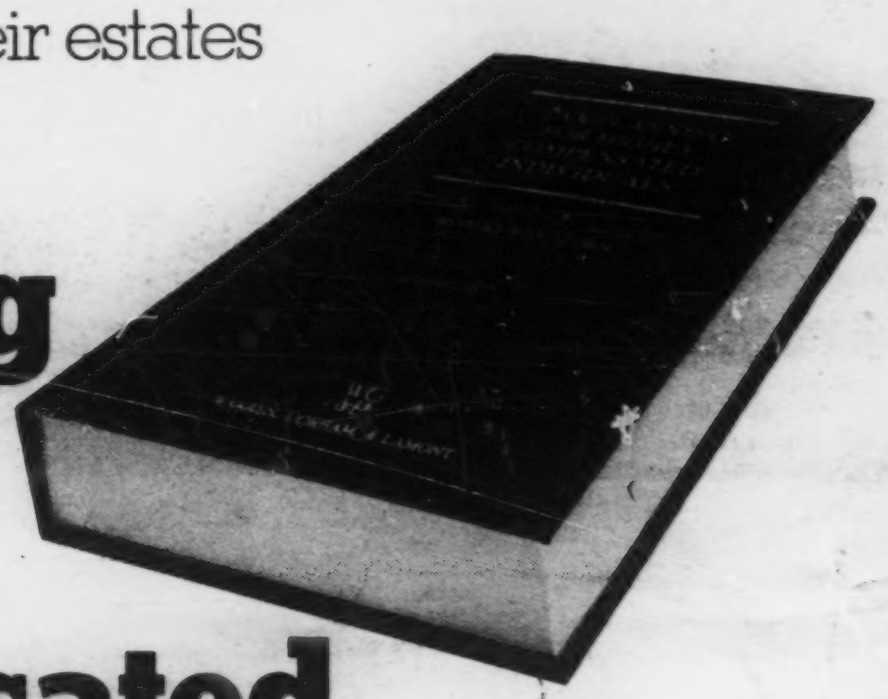

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Penney Probes Financial Services

Retailer Is Testing CD Market and Will Later Try Mutual Funds

By LAURA GROSS

HONOLULU — Which financial services will consumers buy from the J.C. Penney Co., and under what circumstances are they most comfortable making those purchases?

Those are some of the questions Penney executives are trying to answer through a number of direct response marketing tests.

JCPenney

One test, soliciting six- and 12-month certificates of deposits, began last month in Tucson, Ariz., and has initially exceeded Penney executives' expectations, according to Thomas J. Lyons, executive vice president of the New York-based J.C. Penney Co.

In an interview following a talk he gave during the Bank Marketing Association's annual convention here this week, Mr. Lyons said that, later this year, the company will attempt to solicit mutual funds deposits and possibly unit investment trust business, also through direct response methods.

He said an advertisement in the *Arizona Daily Star* offering 9.3% yield for one year and 9.11% for six months, and telling readers to "talk to your J.C. Penney Insurance representative about these great new CDs," is "one of a number of different types of offers we're trying out to determine what you have to do to move

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Competition from Commercial Paper Adds to Sluggish Bank Lending Picture

By LISABETH WEINER

CHICAGO — Competition from the commercial paper market and relatively modest economic activity is likely to keep the demand for short-term bank loans just about steady for the rest of 1985 and into the first quarter of 1986.

Commercial Lending

"Commercial and industrial loans at the large banks remain stagnant and haven't changed much since the beginning of the year," said William Sullivan, senior vice president and director of money market research at Dean Witter Reynolds Inc.

A flurry of merger and acquisition activity in September and October boosted numbers a little, but that is over now, he said. "It's sluggish at money center banks and at regional banks as well," he added.

Indeed, the numbers bear him out. According to the Federal Reserve Board's weekly report, commercial and industrial loans — which represent more than 51% of total short-term business credit demand — were only 2% higher as of Oct. 16 than the level of 12 months ago and 1% below the figures of six months ago.

Meanwhile, total short-term business credit demand grew at a rate of 12.2% from last year and 6.6% from six months ago.

Most of the growth in short-term credit, then, continues to be propelled by the commercial paper market, which remains a fertile borrowing

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InterFirst Plans Layoffs in Face of Flat Loan Demand

Special to the American Banker

DALLAS — Forecasting flat loan demand in real estate and energy, the InterFirst Corp. announced it will lay off some of its 10,200 workers in an effort to contain costs.

Spokesman Joe Bowles would not disclose the size of the planned cutbacks involving InterFirst — the state's second largest bank holding company — and its 68 member banks. However, industry analysts said they expect a 10% operating reduction, possibly involving more than 1,000 people statewide.

The cost reductions are directly attributable to weak prospects in the energy and real estate sectors and is in line with similar measures undertaken by other regional bank holding companies in Texas.

"These are difficult times in the banking business in Texas," Mr. Bowles said Tuesday, noting the state's 8.1% unemployment rate exceeds the national average by one percentage point.

"We are looking at productivity. We are looking at cost control," he said. "There are some layoffs involved."

Some InterFirst workers learned of the planned layoffs Tuesday. The company expects to announce the full extent of the program between late February and May.

"Each market is being looked at separately," Mr. Bowles said. "There is not a hard and fast rule."

Few workers leaving InterFirst offices in downtown Dallas Tuesday knew of or would speak about the cutbacks. One woman nodded affirmatively when asked whether she had been told.

Analysts said they believe the InterFirst program will mirror a 10% cost containment effort implemented in May by the Houston-based Allied Bancshares Inc.

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"There is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does so, rich and poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant."

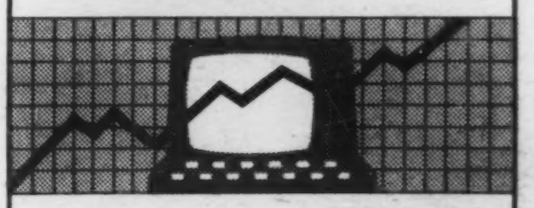
Judge Learned Hand

NUVEEN

John Nuveen & Co. Incorporated, Investment Bankers

Chicago, New York and Principal Cities

Indiana's High Tech Commitment



Indiana realizes that its future economic base will depend heavily on technological enterprises. Therefore, the state has created the Corporation for Innovation and the Corporation for Science and Technology. These corporations offer funding and venture capital, as well as support for existing Indiana companies and to companies relocating here. American Fletcher, Indiana's largest bank, supports Indiana's drive to develop and expand its high tech industries.

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